

C O U N C I L      C O M M U N I C A T I O N

TO: THE CITY COUNCIL  
FROM: THE CITY MANAGERS OFFICE

COUNCIL MEETING DATE  
MARCH 16, 1988

SUBJECT: FUEL COST ADJUSTMENT

PREPARED BY: City Manager

RECOMMENDED ACTION: None required. Information only.

BACKGROUND INFORMATION: At the regular meeting of February 17, 1988, Councilmember Pinkerton requested a report on the fuel cost adjustment that appears on all City utility bills. The matter was directed to Electric Utility Director Henry Rice. Attached (Exhibit A) for the Council's information and review is a copy of his memo to me addressing this topic. Mr. Rice will be in attendance at Wednesday night's meeting to present this item and answer any questions Councilmembers may have.

Respectfully submitted,



Thomas A. Peterson  
City Manager

TAP: br

Attachment

TXTA.07A COUNC336

MEMORANDUM

TO: TOM PETERSON, CITY MANAGER  
FROM: HENRY J. RICE, ELECTRIC UTILITY DIRECTOR  
DATE: MARCH 9, 1988

FUEL COST ADJUSTMENT- Description & Analysis -

Electric Fuel Cost Adjustment (FCA) is a rate adjustment mechanism that ensures ultimate recovery of fuel-related electric expenses such as: oil and gas fuel for steam electric generating plants; steam costs for geothermal production; purchased electricity; and water for power costs.

The cost of fuel is a major item of expense for an Electric Utility; normally representing from 20% to as much as 50% of total utility cost.

During a period of rapidly rising, or falling, fuel costs, a utility may have to pay more, or less, for fuel than expected, yet be unable to adjust rates in a timely manner to adjust for the expenses. With FCA, the difference between actual and estimated fuel and purchased power costs is placed in a balancing account and collected from, or refunded to, customers through periodic adjustments. FCA ensures that the utility is not excessively harmed by rising fuel costs and that customers do not pay more than actual energy costs.

A chart of FCA cost levels (Attachment A) showing activity beginning with the last base rate change March 1, 1985 when the FCA was 15 mills/kwh to the most recent experienced level - March 1988 - when the FCA was 16 mills/kwh.

Fuel adjustment clauses were first used during World War I - a period of rapidly rising fuel costs. They were widely used in commercial and industrial rates by 1960 and became part of many residential rate schedules as a result of rapidly rising fuel costs in the early 1970's. PG&E first used such a mechanism, known as the Fuel Cost Adjustment, in 1973. The current Lodi FCA became effective in 1973.

Currently, 47 states allow some form of fuel adjustment clause, and 26 of those states allow utilities to adjust fuel-related rates automatically, without formal hearings.

The last formal rate adjustment for City of Lodi electric rates was in March 1985. FCA cost levels had been fluctuating monthly prior to March 1985 and were as high as 39.93 mills/kwh in 1981; however, when the new rates were adopted in 1985, the FCA level was 15 mills per kilowatt-hour and monthly fluctuations were abated.

These last three years (1987, 1988 and 1989) prior to commercial operation of our new hydroelectric generation station (Calavaras) will require purchasing increasing amounts of power and energy from third parties (please see

Attachment B). Once our new hydro power source is up and running, the requirement for purchases from third parties will subside.

Such third party purchases involve fuel costs normally higher than our average owned participation plant fuel costs. The result is a higher FCA.

We have attempted to levelize the cost impact and avoid erratic gyrations of the monthly FCA by smoothing out increases and decreases. The FCA is at 16 mills per kilowatt-hour for the third month and is expected to remain there until the summer peak season.

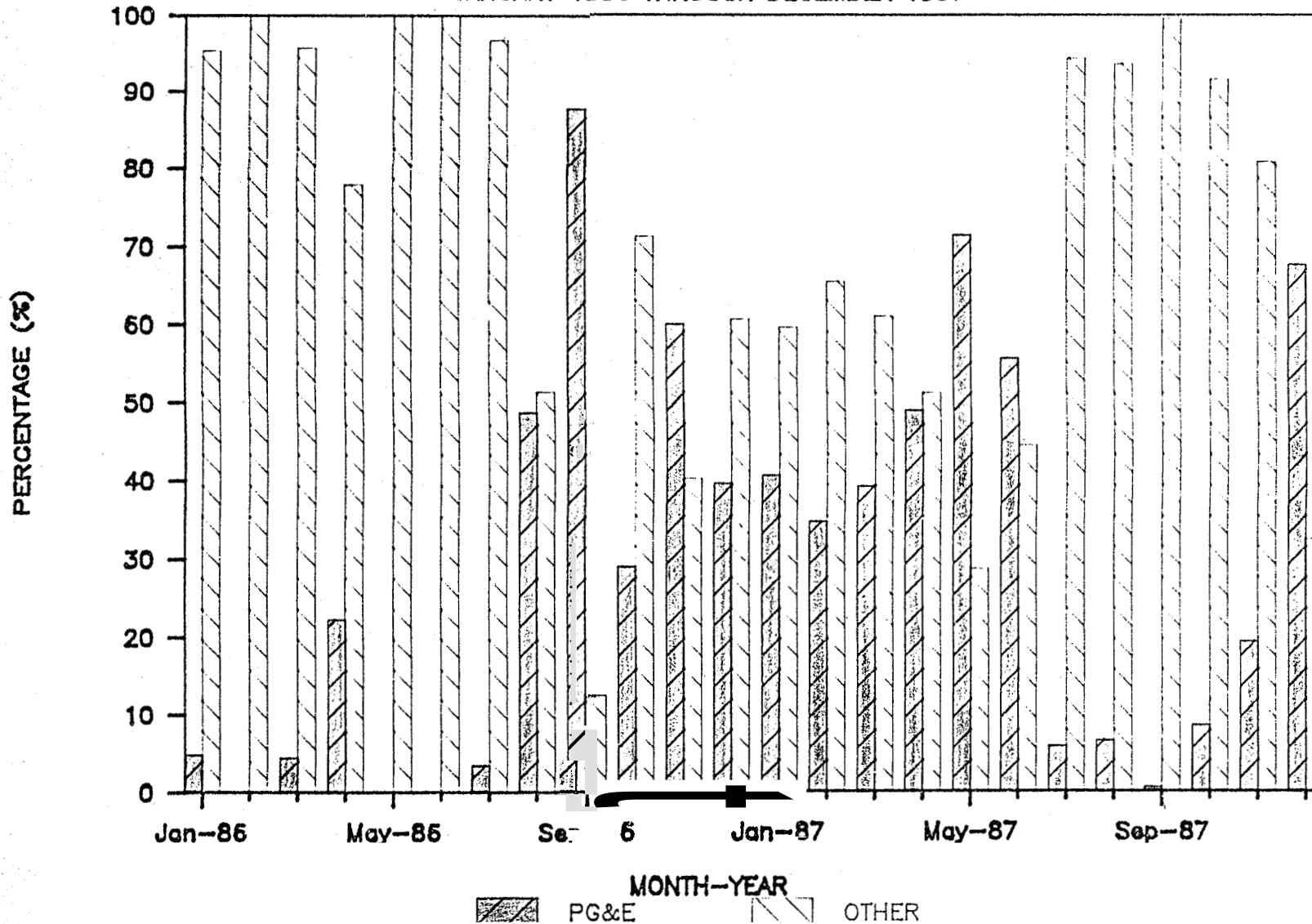
Attached is a complete description of the PG&E fuel adjustment clause which was both the cause and model for the Lodi FCA (Attachment C).

Please note that the base rate of Lodi for typical residential monthly usage (550 kwh/month) including our FCA compared to the PG&E rate for similar service indicates that we are approximately 17% below PG&E (Attachment D).

Attachments (4)

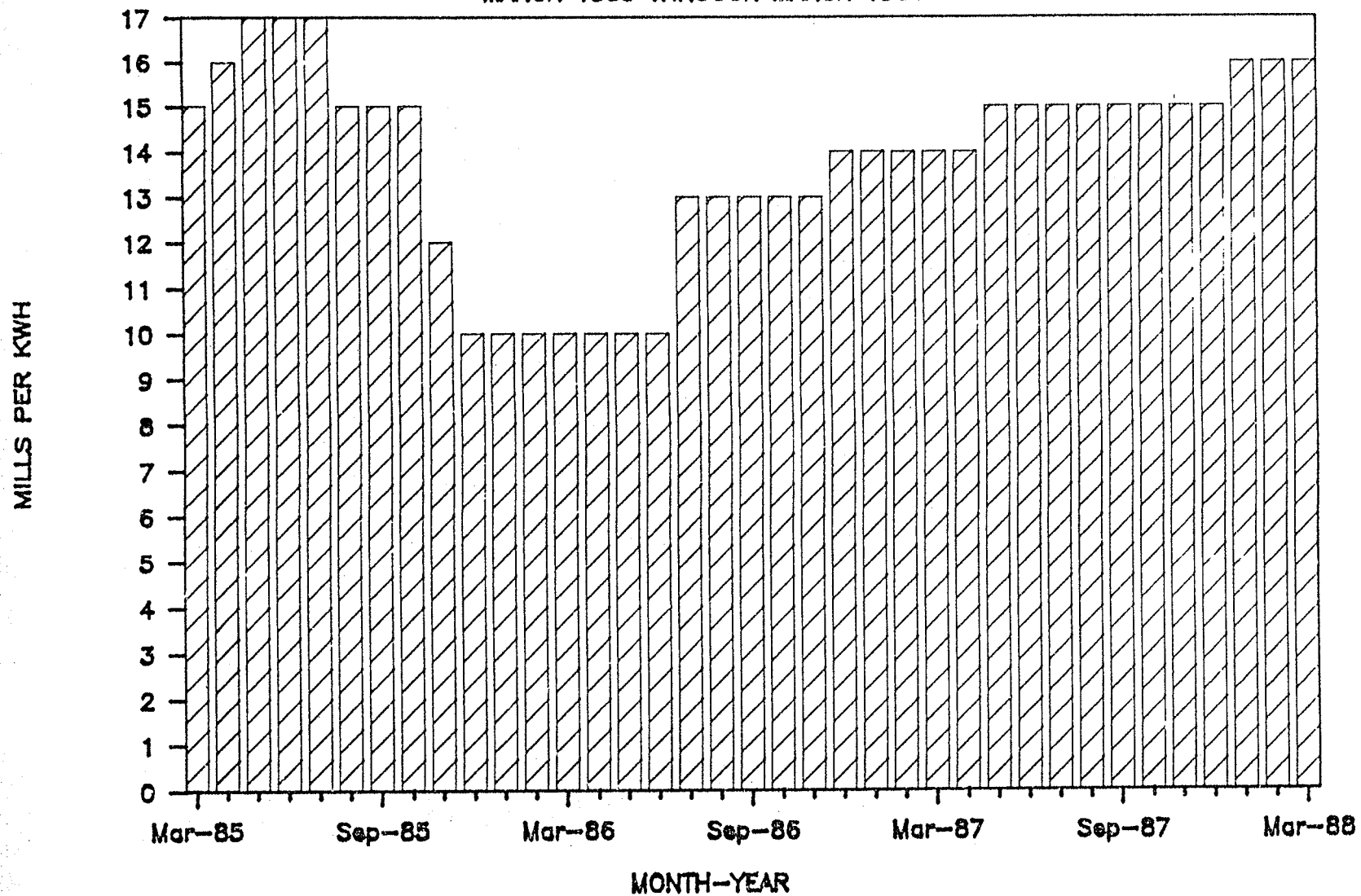
# CITY OF LODI 3RD PARTY ENERGY PURCHASES

JANUARY 1986 THROUGH DECEMBER 1987



# CITY OF LODI FUEL COST ADJUSTMENT

MARCH 1985 THROUGH MARCH 1988



**Energy Cost Adjustment Clause (ECAC)**

See also: Annual Energy Rate (AER); Balancing Account; Electric Revenue Adjustment Mechanism (ERAM); Offset Rates; Public Utility Regulatory Policies Act of 1978 (PURPA); Rate Structure.

PG&E's electric Fuel Adjustment Clause (FAC). ECAC is a rate adjustment mechanism that ensures ultimate recovery of fuel-related electric expenses such as: oil, coal, and nuclear fuel for steam electric generating plants; steam costs for geothermal production; purchased electricity; and water for power costs.

**E**CAC provides for recovery of 91 percent of PG&E's electric energy costs — the remaining 9 percent of these costs are accounted for in the Annual Energy Rate (AER). ECAC ensures that only electric energy expenses actually incurred are charged to customers, no more and no less. The company makes no profit as a result of ECAC.

During a period of rapidly rising, or falling, fuel costs, a utility may have to pay more, or less, for fuel than expected, yet be unable to adjust rates in a timely manner to adjust for the expenses. With ECAC, the difference between actual and estimated fuel and purchased power costs is placed in a balancing account and collected from, or refunded to, customers in future rates. ECAC ensures that the company is not excessively harmed by rising fuel costs and that customers do not pay more than actual energy costs.

The ECAC rate has two components:

- **AN OFFSET PORTION:** designed to recover 91 percent of PG&E's anticipated fuel expenses during the forecast period.
- **A BALANCING ACCOUNT PORTION:** designed to track the differences between estimated energy costs and actual recorded costs during the previous period. Interest is earned on this account; the balance is then amortized over projected sales. If actual fuel costs are greater than estimated costs, the balancing account is said to be undercollected. If estimated costs exceed actual costs, the balancing account is said to be overcollected.

PG&E is allowed by the California Public Utilities Commission (CPUC) to file changes in the ECAC rate twice a year for rates effective August 1 and February 1. The February adjustment is allowed only if the required adjustment would be at least plus or minus 5 percent of total electric revenues. Additionally, as part of each August ECAC proceeding, the CPUC conducts an ECAC "reasonableness review" of PG&E's fuel-related purchases and operations. Expenses for a recent one-year period are examined to determine if they were prudent and reasonable. If the Commission determines that any costs or expenses were unwise or excessive, that amount may be deducted from the amount to be recovered under ECAC. Any costs deducted are borne by stockholders.

Fuel adjustment clauses were first used during World War I — a period of rapidly rising fuel costs. They were widely used in commercial and industrial rates by 1960 and became part of many residential rate schedules as a result of rapidly rising fuel costs in the early 1970's. PG&E first used such a mechanism, known as the Fuel Cost Adjustment, in 1973. The current ECAC became effective in 1976.

Currently, 47 states allow some form of fuel adjustment clause, and 26 of those states allow utilities to adjust fuel-related rates automatically, without formal hearings. The remaining 21 states, including California, require hearings and/or allow only a fixed percentage of the adjustment to be passed on "automatically" to their customers on a dollar-for-dollar basis. The length of time between adjustments varies from state to state as well.

SOURCE: PG&E Document entitled, "Resource Encyclopedia of Utility Industry Terms," pp. 149-150.

CITY OF LODI  
ELECTRIC UTILITY  
AVERAGE USE COMPARISON

CITY OF LODI  
RATE SCHEDULE - EA - DOMESTIC SERVICE  
EFFECTIVE DATE: MARCH 1, 1985

		RATE (\$)	AMOUNT (\$)
BASE RATE			
FIRST	440 KWH PER KWH	0.04864	21.40
EXCESS	110 KWH PER KWH	0.07677	8.44
TOTAL BASE	550 KWH		29.84
FCA	ALL KWH PER KWH	0.01600	8.80
CEC TAX RATE	ALL KWH PER KWH	0.00020	0.11
TOTAL BILL FOR 550 KWH AVERAGE USE			\$38.75

PACIFIC GAS AND ELECTRIC COMPANY  
RATE SCHEDULE E-1SB - RESIDENTIAL SERVICE - BASIC - WINTER  
EFFECTIVE DATE: JANUARY 1, 1988

		RATE (\$)	AMOUNT (\$)
BASE RATE			
FIRST	355.7 KWH PER KWH (1)	0.05767	20.51
EXCESS	194.3 KWH PER KWH	0.06953	13.51
TOTAL BASE	550 KWH		34.02
ADJUSTMENT RATES (2)			
FIRST	355.7 KWH PER KWH	0.00933	3.32
EXCESS	194.3 KWH PER KWH	0.04801	9.33
TOTAL ADJ	550 KWH		12.65
CEC TAX RATE	ALL KWH PER KWH	0.00020	0.11
TOTAL BILL FOR 550 KWH AVERAGE USE			\$46.78

FOOTNOTES

(1) BASIC WINTER QUANTITY: 11.7 KWH PER DAY TIMES 30.4 DAYS = 355.7 KWH

(2) PG & E ADJUSTMENT RATE

	ECAC	CPUC FEE	TOTAL
FIRST TIER	0.00921	0.00012	0.80933
EXCESS	0.04789	0.00012	0.04801

City of Lodi  
Lodi, California

Canceling Ordinance No. 1321

SCHEDULE EA

DOMESTIC SERVICE

APPLICABILITY:

Domestic service is applicable to domestic lighting, heating, cooking and single-phase domestic power service in single-family dwellings and in flats and apartments separately metered by the City and to single-phase service used in common for residential purposes by tenants in multi-family dwellings.

RELIABILITY:

The City will endeavor at all times to provide a regular and uninterrupted supply of service, but in case the supply of service shall be interrupted or irregular or defective or fail from causes beyond its control or through ordinary negligence of employees, servants or agents, the City will not be liable.

RATES:

	Per Meter Per Month
<u>Minimum Charge:</u> . . . . .	\$1.65
Energy Charge:	
First 440 kwhr, per kwhr . . . . .	.04864
Over 440 kwhr, per kwhr . . . . .	.07677

Fuel Cost Adjustment:

A fuel cost adjustment will be included in each bill for service. The adjustment amount shall be the product of the total kilowatt hours for which the bill is rendered times the adjustment amount per kilowatt hour. The adjustment amount per kilowatt hour will be calculated to recover fuel cost amounts charged the City by the Pacific Gas and Electric Co., Northern California Power Agency and other suppliers of bulk power.

SPECIAL CONDITIONS:

- (a) When a business or commercial establishment is conducted in conjunction with a residence and both are measured through one meter, this rate does not apply.
- (b) Service on this schedule will be supplied at the single-phase secondary voltage available - either 120/240 or 120/208 volts.

Effective March 1, 1985

Ordinance No. 1348



Pacific Gas and Electric Company  
San Francisco, California

Cancelling

Revised Cal. P.U.C. Sheet No. 10322-E  
Revised Cal. P.U.C. Sheet No. 10060-E

PAGE 3

# SCHEDULE E-1--RESIDENTIAL SERVICE

**APPLICABILITY:** This schedule is applicable to single-phase residential service in single-family dwellings and in flats and apartments separately metered by the Utility; to single-phase service in common areas in a multifamily complex; and to all single-phase farm service on the premises operated by the person whose residence is supplied through the same meter.

**TERRITORY:** The entire territory served.

## RATES:

### **ENERGY CHARGE:**

BASELINE (TIER 1) QUANTITIES, per kwh .....  
TIER II QUANTITIES, per kwh .....

Per Meter  
Per Month  
\$ .06700(1)  
\$ .11754(1)

**MINIMUM CHARGE:** \$5.00 per month.

## SPECIAL CONDITIONS:

1. **ANNUAL CONTRACT:** For customers who use service for only part of the year, this schedule is applicable only on an annual contract.
2. **BASELINE RATES:** Baseline rates are applicable only to separately-metered residential use. The Utility may require the customer to complete and file with it a Declaration of Eligibility for Baseline Quantities for Residential Rates.
3. **BASELINE (TIER I):** The following quantities of electricity are to be billed at the rates for baseline use:

Baseline Territory*	BASELINE QUANTITIES (kwh PER DAY)			
	Code B - Basic Quantities		Code H - All-Electric Quantities	
	Summer	Winter	Summer	Winter
	Tier 1	Tier 1	Tier 1	Tier 1
P	13.1	11.7	19.9	37.2
Q	7.6	11.3	17.0	32.9
R	14.7	11.7	21.2	33.2
S	13.1	11.7	19.9	33.9
T	7.6	8.7	17.0	26.6
V	8.9	10.0	20.3	32.2
W	16.4	11.0	24.2	30.5
X	10.5	11.3	13.4	32.9
Y	9.8	11.7	17.0	37.2
Z	6.9	11.3	20.6	40.2

\*The applicable baseline territory is described in Part A of the Preliminary Statement.

4. **ALL-ELECTRIC QUANTITIES (Code H):** All-electric quantities are applicable to service to customers with permanently-installed electric heating as the primary heat source. All-electric quantities are also applicable to service to customers of record as of November 15, 1984, to whom the former Code W (Basic plus Water Heating) lifeline allowance was applicable on May 15, 1984, and who thereafter maintain continuous service at the same location under this schedule.

5. **SEASONAL CHANGES:** The summer season is May 1 through October 31 and the winter season is November 1 through April 30. Bills that include May 1 and November 1 seasonal changeover dates will be calculated by multiplying the applicable daily baseline quantity for each season by the number of days in each season for the billing period.

6. **STANDARD MEDICAL QUANTITIES (Code M - Basic Plus Medical Quantities, Code S - All-Electric Plus Medical Quantities):** Additional medical quantities are available as provided in Rule 19.

Advice Letter No. 1184-E  
Decision No. 87-12-033, 87-12-068

Issued by  
Gordon R. Smith  
Vice President  
Finance and Rates

Date Filed December 29, 1987  
Effective January 1, 1988  
Resolution No. E-3061



Pacific Gas and Electric Company  
San Francisco, California

Cancelling

Revised Cal. P.U.C. Sheet No. 10318-E  
Revised Cal. P.U.C. Sheet No. 10149,  
10150-F

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PRELIMINARY STATEMENT (Continued)

1. Rate Schedule Summary (\$ per kWh)

RATE SCHEDULE		Base Energy Rate*	Bars			Total Base Rate	Adjustment		Effective Energy Charge
			AER	CFA**	DCAC		ECAC	CPUC Fee	
RESIDENTIAL									
E-1	Tier I	.04907 (1)	.00229 (1)	.00017	.00614 (1)	.05767 (1)	.00921	.00012	.06700 (1) ✓
	Tier II	.06093 (1)	.00229 (1)	.00017	.00614 (1)	.06953 (1)	.04789	.00012	.11754 (1) ✓
E-7	(Pd. A)								
	Peak	(.02247) (R)	.00193 (1)	.00017	.00614 (1)	(.01423) (R)	.17235	.00012	.15824 (R)
	Off-Peak	.06140 (1)	.00193 (1)	.00017	.00614 (1)	.06964 (1)	.00796	.00012	.07772 (1)
	(Pd. 8) Peak	.05654 (1)	.00193 (1)	.00017	.00614 (1)	.06478 (1)	.05556	.00012	.12046 (1)
	Off-Peak	.04978 (1)	.00193 (1)	.00017	.00614 (1)	.05802 (1)	.02073	.00012	.07887 (1)
	Baseline Credit	.01186 (1)	.00000	.00000	.00000	.01186 (1)	.03868	.00000	.05054 (1)

.00921  
.00012  
-----  
.00933 Fuel Adj. (1)

.04789  
.00012  
-----  
.04801 Fuel Adj. (E-7)

(Continued)

Adverse Letter No. 1184-E  
Decision No. 87-12-033, 87-12-068

Issued by:  
Gordon R. Smith  
Vice President  
Finance and Rates

Date Filed December 29, 1987  
Effective January 1, 1988  
Resolution No. E-3061